

STATE OF COLORADO  
HIGHER EDUCATION  
ACCOUNTING STANDARDS

Issued by: State Controller's Office  
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Standard #18  
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Approved By: Arthur J. Bernhart Date 2/11/02

**TITLE: COMPENSATED ABSENCES FOR ANNUAL AND SICK LEAVE**

Statement No. 16 of the Governmental Accounting Standards Board, titled "Accounting for Compensated Absences," requires the accrual of a liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee. More specifically, annual leave and sick leave benefits should be accrued as stated below.

**ANNUAL LEAVE**

Annual leave should be accrued as a liability, as the benefits are earned by employees, if both of these conditions are met:

- 1) The employees' rights to receive compensation are attributable to services already rendered.
- 2) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

**SICK LEAVE**

A liability for sick leave should be accrued for those employees who are either currently eligible or who are expected to become eligible to receive cash payments conditioned on the employees' termination or retirement. Sick leave accumulations should be reduced to the maximum amount allowed as a termination payment. It should be kept in mind that GASB No. 16 concerns itself only with financial statement presentation and does not require institutions to maintain records on an accrual basis.

The accumulated liability for annual and sick leave should be recorded in the current funds using the title Compensated Absence Liability. The liability recorded in the auxiliary and self-funded fund group shall only include the liability incurred in that fund group. A liability may be recorded in the restricted fund but only to the extent such liability can be expected to be paid from existing restricted fund resources. The liability recorded in the current unrestricted funds category shall include the balance of the institutional liability. The effect of the change on the current unrestricted fund balance caused by recognition of such a liability may be offset in whole or in part by a receivable in the current unrestricted fund only if (1) unrestricted assets are available for permanent transfer from other funds and (2) payment (or settlement by other means) to the current unrestricted fund is expected within a reasonable period of time.

The following factors should be considered when estimating the total compensated absence liability for accrued annual and sick leave:

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- 1) The compensated absences liability should be calculated based on the pay or salary rates in effect at the financial statement date. The liability may be determined by using an averaging technique for a group of individuals when that calculation results in a reasonably accurate estimate.
- 2) The accounting for sabbatical leave depends on whether the compensation during the sabbatical is for service during the period of leave or for past service. If the sabbatical leave is granted so that employees can perform research, public service, or can obtain additional training to enhance the reputation of or otherwise benefit the employer, then the costs associated with the sabbatical leave should be accounted for during the period of leave, in the same manner as other salary and benefit expenses. If the sabbatical leave is granted as compensated unrestricted time off, then a compensated absence liability should be accrued during the periods the employees earn the right to the leave.
- 3) The annual leave accrual should include the employer's share of PERA (or an optional retirement program) and the employer's share of Medicare taxes.
- 4) Sick leave is vested for the portion of sick leave accrued and payable upon retirement, in accordance with the applicable policy at the institution. For example, this liability may be computed as total sick leave accrued (computed the same as annual leave) X 25% (vested portion) X percent of current employees who will retire according to PERA (to be provided by the State Controller's Office annually). **The sick leave accrual does not include the employer's share of PERA (or an optional retirement program) and Medicare taxes.**
- 5) When comparative financial statements are presented, a compensated absences liability must be computed for all years presented and disclosed in the notes to the financial statements. The suggested note format is shown below:

NOTE X - COMPENSATED ABSENCES FOR ANNUAL AND SICK LEAVE. College (or University) employees accrue annual and sick leave based upon length of service but subject to certain limitations regarding the amount that will be paid upon termination. The estimated total liability for compensated absences at June 30, 200Y and 200X is \$                      and \$                      , respectively. Operating expenses for the years ended June 30, 200Y and 200X include \$                      and \$                      for the increase (decrease) in the estimated compensated absence liability.

- 6) The entries to record compensated absences should be recorded as of year-end. The following example entry assumes a year-end adjustment to increase the liability. Decreases in the given functional area would result in a credit to the expense account.

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Functional Area Expense - Compensated Liability Increase	\$XX
Current Compensated Absence Liability - Annual Leave	\$XX
Current Compensated Absence Liability - Sick Leave	\$XX
Non-Current Compensated Absence Liability - Annual Leave	\$XX
Non-Current Compensated Absence Liability - Sick Leave	\$XX
Fund Balance - Compensated Absence Liability	\$XX
Fund Balance - Unrestricted	\$XX

To record current year changes in institutional compensated absence liability.

CLASSIFICATION OF COMPENSATED ABSENCE LIABILITIES ON THE STATEMENT OF NET ASSETS

Institutions should determine the compensated absence liability assuming last-in-first-out (LIFO) usage of earned hours. In general under the LIFO assumption, the leave to be taken in the following year has not yet been earned at June 30. The exception is for those individuals who will take leave in excess of the amount earned; however, that amount is not estimable. As a result, the only of the compensated absence liability that should be recorded as current is the portion of the higher of the institution's historical annual amount of separation payouts or the known amounts of separation payouts. The remaining balance of the compensated absence liability should be recorded as long-term. The current and long-term portions of the liability should be classified as current and non-current, respectively, on the Statement of Net Assets.